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FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly, pursuant to Assembly resolution 47/211 of 23 December 1992, the concise summary of principal findings, conclusions and recommendations contained in the reports on the audit of the accounts for the financial period ended 31 December 1996, prepared by the Board of Auditors (see annex).

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Letter of transmittal

16 July 1997

Sir,

I have the honour to transmit to you in accordance with the request by the General Assembly in paragraph 18 of its resolution 47/211 of 23 December 1992, the concise summary of principal findings, conclusions and recommendations contained in the reports prepared by the Board of Auditors for the General Assembly at its fifty-second session.

Accept, Sir, the assurances of my highest consideration.

(Signed) Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of
Great Britain and Northern Ireland
and Chairman
United Nations Board of Auditors

The Secretary-General of the United Nations
New York, N.Y.

ANNEX

Concise summary of principal findings, conclusions and recommendations contained in the reports prepared by the Board of Auditors for the General Assembly at its fifty-second session

1. The following is the concise summary of principal findings, conclusions and recommendations contained in the reports of the Board of Auditors, presented pursuant to the request contained in paragraph 18 of General Assembly resolution 47/211 of 23 December 1992.

2. Because 1996 was the first year of the biennium 1996-1997, the Board has prepared reports on the two organizations that have annual financial periods:

(a) Voluntary funds administered by the United Nations High Commissioner for Refugees (UNHCR);[a]

(b) United Nations Institute for Training and Research (UNITAR).[b]

3. The major areas where action is needed are as follows:

Voluntary funds administered by the United Nations High Commissioner for Refugees

(a) Financial issues

(i) Treatment of advances to implementing partners;

(ii) Delays in receipt of audit certificates;

(b) Management issues

(i) Deficiencies in programme planning; monitoring and evaluation;

(ii) Aspects of procurement planning and vendor selection;

(iii) Weaknesses in the engagement and management of consultants;

(iv) Lack of integration between asset management and procurement systems.

United Nations Institute for Training and Research

(a) Financial issues

(i) Shortfall in income over expenditure in General Fund;

(ii) Deficit fund balances in Special Purpose Grant Funds;

(b) Management issues: Deficiencies in programme planning, monitoring and evaluation.

The detailed findings, conclusions and recommendations can be found in the relevant reports.

4. In accordance with paragraph 7 of General Assembly resolution 51/225 of 3 April 1997, the Board has also highlighted those previous recommendations which have not been fully implemented by the Administration.

I. VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES

A. Previous recommendations not fully implemented

5. The Board noted that UNHCR had not fully implemented recommendations made by the Board in its reports for the years ended 31 December 1993 to 31 December 1995 as follows:

(a) Non-assessment of the capabilities of implementing partners to implement major projects (1993, 1994 and 1995) (A/52/5/Add.5, para. 66);

(b) Delays in submission of project monitoring reports by field offices and subproject monitoring reports by implementing partners (1994 and 1995) (ibid., paras. 68 and 69);

(c) Omission to review the decision concerning preparation of work plans on a selective basis and format of the work plan (1994 and 1995) (ibid., paras. 59 and 60);

(d) Non-maintenance of separate accounts for UNHCR funds by the implementing partners (1994 and 1995) (ibid., para. 64).

B. Financial issues

Accounts and financial reporting

6. The Board considered that the UNHCR policy of recording advances to implementing partners as programme expenditure at the time the advances are made does not provide full accountability and could also lead to incorrect disclosure of actual expenditures in the financial statements. Such advances are also recorded under a separate memorandum suspense account and are cleared as and when financial reports are received from implementing partners. As at 30 June 1997, financial reports had not been received in respect of a total of $442.6 million, comprising $213.0 million relating to 1996 and $229.6 million for 1994 and 1995. UNHCR was therefore not yet able to confirm how the implementing partners had applied the funds. The Board recommended that the UNHCR Administration urgently review the present system of recording programme expenditures of implementing partners. The Administration should also ensure that all outstanding financial reports are received from implementing partners

and are used to clear the amounts recorded in the memorandum suspense account, after proper verification of those reports (ibid., paras. 27 and 28).

7. The Board took note that, following its report in 1995, UNHCR has initiated action to screen implementing partners, although further progress needs to be made. UNHCR has also established arrangements for obtaining audit certificates from implementing partners, who are required to submit them within six months of the final date for liquidation of commitments. The Board appreciates the efforts made but also noted that audit certificates had not been received for the expenditure charged in 1996. The Board reiterated its recommendation made in 1995 that UNHCR should ensure that audit certificates were submitted by the implementing partners in sufficient time for the Administration to have the necessary assurance about the regularity, compliance and propriety of the expenditure incurred by the implementing agencies and reflected in the financial statements (ibid., paras. 25 and 26).

C. Management issues

1. Programme management

8. There were variations in the rates charged for programme delivery and administrative support for general programmes in 1996; these rates ranged from 32 to 48 per cent of the total programme budget. The Board also noted that the level of programme delivery and administrative support costs had increased from 27.3 per cent in 1994 to 35.7 per cent in 1996. The level of programme delivery and administrative support costs was particularly high in special programmes in three countries and in annual programmes of care and maintenance in two other countries. The Board recommended that the programme delivery and administrative support costs should be reviewed and that norms should be established (ibid., paras. 46-50).

9. Project objectives were not always precise and the beneficiaries were not clearly identified. In addition, the subproject descriptions did not reflect fully the implementing partner's responsibility and did not incorporate appropriate performance indicators for the purpose of monitoring and evaluation. The Board recommended that project objectives should be clearly defined and quantified. Further, subproject descriptions should be specific with clear identification of the nature of assistance and the implementing partners' responsibilities, and should incorporate appropriate performance indicators (ibid., paras. 55, 56 and 59-61).

10. Work plans were not prepared in many cases and even where they were available, there was no evidence that they were used for monitoring and evaluation of work. In addition, in all 29 projects reviewed, project monitoring reports were either not received or received very late. Moreover, many of those received were incomplete and did not include an assessment of the impact of the achievements and reasons for delays. The Board recommended that, pending introduction of the new operations management system, preparation of work plans should be strengthened and made more programme-specific and should include appropriate performance indicators. In addition, the Administration should intensify its efforts to obtain the project monitoring reports in a

timely manner and should ensure that they are properly completed (ibid., paras. 60, 61 and 68-70).

2. Procurement

11. UNHCR is still in the process of redefining its vendor performance evaluation to make the criteria for vendor selection more transparent. The Board appreciated the action taken by UNHCR to increase its sourcing of suppliers from developing countries. However, the Board noted that during 1996, out of 705 vendors selected by UNHCR headquarters to submit quotations, 522 (74 per cent) were from 13 developed countries and some 75 per cent of the value of contracts was awarded to suppliers in developed countries. The Administration informed the Board that in terms of total purchase orders placed at UNHCR headquarters and in regional procurement offices, the proportion of contracts awarded to suppliers from developing countries had reached 46 per cent in 1996 and represented 33 per cent of the total value of purchases (ibid., paras. 77 and 78).

3. Human resource management

Consultants, experts and temporary assistance

12. The Board found that in-house expertise was not explored fully before engaging consultants. Moreover, in 44 per cent of cases examined, consultants were engaged repeatedly with intermittent breaks but mostly for the same jobs. In 25 per cent of cases examined, the same consultant was engaged for long periods and in one case, the engagement of a consultant exceeded 14 years. Further, in 89 per cent of the cases reviewed, only one candidate was considered. The Board recommended that the Division of Human Resources Management actively verify and establish the need for every consultancy contract and record the justification clearly, and that prolonged engagements of the same consultant should be avoided. UNHCR recognized the need to review its consultant contracting policy in order to ensure a wider source of consultants and a more competitive process (ibid., paras. 80-82, 86, 93 and 94).

13. Terms of reference for engagement of consultants did not always provide specific targets and delivery dates against which consultants' performance could be measured. This undermined the Organization's ability to control and monitor the contracts and to determine whether consultants had achieved their objectives in terms of quality and cost. The Board recommended that UNHCR issue guidance on the need to prepare terms of reference in a more precise and output-related manner and include objectives, targets and output delivery dates (ibid., paras. 83-85).

14. The Board noted that the roster of consultants was not regularly used. For example, the Board found that in 1996 only 17 per cent of the consultants appointed were taken from the roster. UNHCR also proposed to decentralize the contracting process, including the maintenance of the roster. The Board recommended that within its decentralization plans, UNHCR should ensure that a

central roster is maintained with up-to-date information (ibid., paras. 89 and 90).

4. Asset management

15. MINDER is a fully decentralized software/hardware system incorporating the tracking and the management of assets (non-expendable property). The Board noted that owing to the lack of compatibility between the procurement and the asset management systems, it was not possible for MINDER to capture automatically details of assets procured. The Board recommended that MINDER be upgraded to enable electronic transfer of data from the procurement system (ibid., paras. 106 and 107).

5. Cases of fraud and presumptive fraud

16. UNHCR brought to the Board's attention one case of fraud arising in 1996. In the Sub-Office, Chimono, Mozambique, a staff member had misappropriated $39,892, $16,579 of which has so far been recovered. The Administration is now taking steps to bring criminal proceedings against the employee, who has since been dismissed from service (ibid., para. 123).

II. UNITED NATIONS INSTITUTE FOR TRAINING AND RESEARCH

A. Previous recommendation not fully implemented

17. The Board noted that UNITAR had not fully implemented the recommendation made by the Board in its reports for the years ended 31 December 1993 to 31 December 1995 that UNITAR should draw up and implement an appropriate strategy for dealing with the deficit on a number of Special Purpose Grant Funds (A/52/5/Add.4, para. 34).

B. Financial issues

1. General Fund

18. The UNITAR General Fund showed a substantial shortfall in income over expenditure in 1996 ($254,633), as in 1995 ($111,585). As a result, the total reserves and fund balances fell to $392,989 at the end of 1996. This amount included a balance on the operating reserve of $146,462 which UNITAR considers to be sufficient to cover the potential termination costs that might arise in respect of staff whose posts are financed from the General Fund. The Board was concerned at the substantial shortfall in income over expenditure and the lack of available funds to secure the long-term future of the General Fund. While recognizing that the increase in UNITAR expenditure represents an increase in activity, the Board emphasized the need to secure sufficient income to meet costs (ibid., paras. 29 and 30).

2. Special Purpose Grant Funds

19. While the Fund enjoyed a substantial surplus in 1996 ($853,311), compared with a small deficit in 1995 ($13,562), there remained a significant number of Special Purpose Grant Fund projects with deficit balances, some of which had existed since 1993. The Board reiterated its recommendation as noted in paragraph 17 above that these long-standing deficits should be resolved promptly and that UNITAR should carry out an assessment of the collectability from donors of amounts outstanding and take appropriate action to clear any amounts deemed uncollectable (ibid., paras. 33-36).

C. Management issues

1. Programme management

20. The Board examined five programmes implemented by UNITAR in order to assess how UNITAR developed, implemented and monitored its programmes and how it evaluated the quality and impact of its training activities.

21. On development of programmes, the Board noted that, for the most part, UNITAR had established clearly defined programmes of assistance that provided clear objectives, expected outputs and milestones, and had set out the respective responsibilities of UNITAR and the participating countries (ibid., para. 49).

22. As regards programme implementation, the Board considered that in the debt management programme in the Central Asian republics, of the 13 activities delivered, 3 activities undertaken were not fully in accordance with the original concept for the legal aspects programme. These activities were, however, undertaken at the countries' request and with donor approval. The Board recommended that UNITAR ensure that there were clearer linkages between its training activities and the specific objective of the programme (ibid., para. 56).

23. In reviewing the methods used by UNITAR to evaluate the quality and impact of its training activities, the Board was pleased to note that, for the first phase of the climate change programme, UNITAR had established detailed agreements with partner institutions to help it implement the programme and monitor progress and performance. While the Board identified scope for UNITAR to improve its recording of the extent to which pilot projects added value to the programmes, the Board was generally satisfied with the way in which UNITAR evaluated the quality and impact of its training material (ibid., paras. 59 and 60).

2. Fraud and presumptive fraud

24. The UNITAR secretariat reported no cases of fraud or presumptive fraud relating to the financial year ended 31 December 1996 (ibid., para. 64).

(Signed) Sir John BOURN
Comptroller and Auditor-General of
the United Kingdom of
Great Britain and Northern Ireland

(Signed) Osei Tutu PREMPEH
Auditor-General of Ghana

(Signed) Vijay Krishna SHUNGLU
Comptroller and Auditor-General
of India

Notes

[a] Official Records of the General Assembly, Fifty-Second Session, Supplement No. 5E (A/52/5/Add.5).

[b] Ibid., Supplement No. 5D (A/52/5/Add.4).